

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Washtenaw County Road Commission
(a component unit of Washtenaw County)

Financial Report
with Supplemental Information
December 31, 2007

Washtenaw County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Washtenaw County Road Commission

We have audited the accompanying financial statements of the governmental activities and the major fund of the Washtenaw County Road Commission (a component unit of Washtenaw County) (the "Road Commission") as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Washtenaw County Road Commission at December 31, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the statements that collectively comprise the Road Commission's basic financial statements. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Washtenaw County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 11, 2008

Washtenaw County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Washtenaw County Road Commission (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2007. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental fund balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; it tells us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column tells us how the Michigan Transportation Fund revenues were spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplemental information is also provided for additional information purposes.

Financial Analysis

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$200,686,365 at the end of the fiscal year.

When comparing this fiscal year to the previous year, net assets have increased by \$22,778,762 (see page 8). This is primarily attributed to the addition of infrastructure assets.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below:

Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2007	2006
Assets		
Current and other assets	\$ 15,074,945	\$ 9,166,199
Capital assets	<u>199,454,635</u>	<u>178,613,002</u>
Total assets	214,529,580	187,779,201
Liabilities		
Long-term liabilities outstanding	4,323,612	4,945,309
Other liabilities	<u>9,519,603</u>	<u>4,926,289</u>
Total liabilities	<u>13,843,215</u>	<u>9,871,598</u>
Net Assets		
Invested in capital assets - Net of related debt	195,695,127	174,480,968
Unrestricted	<u>4,991,238</u>	<u>3,426,635</u>
Total net assets	<u>\$ 200,686,365</u>	<u>\$ 177,907,603</u>

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2007	2006
Revenue	\$ 50,058,910	\$ 43,458,347
Expenses	<u>27,280,148</u>	<u>26,170,884</u>
Change in Net Assets	<u>\$ 22,778,762</u>	<u>\$ 17,287,463</u>

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

The Road Commission implemented a department-based budget beginning in fiscal year 2006. This provided an opportunity for each department to participate in developing its budget and monitoring its expenditures. The new budget process will continually be refined and updated as warranted.

The Road Commission amended its 2007 budget on two occasions during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final amended budget for revenue was \$7.9 million higher than the original budget primarily due to not including in-kind contributions in the original budget. The actual 2007 revenues were approximately \$1.7 million lower than the amended budget due to receiving less federal and state revenue than anticipated. The actual 2007 expenditures were approximately \$2.6 million lower than the amended budget due to incurring less project expenditures than anticipated.

Capital Assets

The Road Commission had \$199,454,635 in capital assets at the end of the fiscal year. The reason for the approximately \$20.8 million increase from the previous year is twofold: (1) purchases of new equipment and (2) an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2007	2006
Land	\$ 23,104,959	\$ 18,413,306
Buildings and storage bins	9,198,595	9,483,298
Road equipment	1,789,547	2,148,176
Other equipment	391,983	517,487
Infrastructure	164,969,551	148,050,735
Total	<u>\$ 199,454,635</u>	<u>\$ 178,613,002</u>

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The general economic activity continued to diminish during 2007, which resulted in Michigan Transportation Fund (MTF) revenues remaining relatively flat when compared to 2006 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2008 and has projected a 5 percent decrease for fiscal year 2008. The actual 2008 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

A hiring freeze continues to be observed by the Road Commission. A scaling back of the work force continues through attrition, layoffs, and no new temporary employees.

Overall, the 2008 budget includes significantly higher expenditures than 2007 primarily due to an increase in the expected level of reimbursable federal aid projects as well as In-kind contributions. Revenues are expected to be higher in 2008 primarily due to the increase in local government contributory projects as well as more federal aid projects and increased in-kind contributions. These dedicated revenues will lead to more capital improvements.

The Road Commission will also continue to address the OPEB obligation in 2008. In addition, benefit changes were implemented in order to address the escalating costs of health care. The Road Commission also continues to apply for federal reimbursement for Medicare Part D applicable costs.

In 2007, the Road Commission was evaluated to identify gaps and required improvements to achieve conformity to the ISO 9001:2000 quality system standards. The Road Commission is attempting to be compliant by the end of 2008. Currently, only seven local units of government nationwide are certified.

New controls related to audit risk assessment standards Nos. 104-111 were implemented in 2007. This will provide more documentation into the Road Commission's controls and procedures as well as identify areas for improvements within its processes.

In an effort to further protect the Road Commission from fraud, payee positive pay was implemented during 2007. This additional layer of protection is a proactive approach to preserving the integrity of any checks written by our agency.

The Road Commission continues to evaluate processes and procedures in order to cost effectively provide the citizens of Washtenaw County with safe and convenient driving conditions.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Road Commission, 555 N. Zeeb Road, Ann Arbor, MI 48103.

Washtenaw County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2007

	Major Fund - Road	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 9,866,773	\$ -	\$ 9,866,773
Accounts receivable (Note 1)	3,950,214	-	3,950,214
Inventory	722,721	-	722,721
Restricted assets (Note 4)	310,492	-	310,492
Prepaid items and other	224,745	-	224,745
Capital assets - Net (Note 5):			
Assets being depreciated	-	176,349,676	176,349,676
Assets not being depreciated	-	23,104,959	23,104,959
Total assets	<u>\$ 15,074,945</u>	199,454,635	214,529,580
Liabilities			
Accounts payable	\$ 739,782	-	739,782
Advances (Note 1)	7,758,512	-	7,758,512
Accrued liabilities	195,487	55,822	251,309
Bonds and contracts payable, due within one year (Note 7)	-	770,000	770,000
Bonds and contracts payable, due in more than one year (Note 7)	-	3,300,000	3,300,000
Other long-term liabilities (Note 6)	-	1,023,612	1,023,612
Total liabilities	8,693,781	5,149,434	13,843,215
Fund Balance			
Reserved:			
Inventory	722,721	(722,721)	-
Prepaid items	96,272	(96,272)	-
Unspent bond proceeds	310,492	(310,492)	-
Unreserved - Designated for:			
Employee retirement benefits	1,500,000	(1,500,000)	-
Capital improvements	2,024,677	(2,024,677)	-
Capital outlay	319,605	(319,605)	-
Insurance retention	635,975	(635,975)	-
Construction	213,454	(213,454)	-
Unreserved and undesignated	557,968	(557,968)	-
Total fund balance	6,381,164	(6,381,164)	-
Total liabilities and fund balance	<u>\$ 15,074,945</u>		
Net Assets			
Investments in capital assets - Net of related debt		195,695,127	195,695,127
Unrestricted		4,991,238	4,991,238
Total net assets		<u>\$ 200,686,365</u>	<u>\$ 200,686,365</u>

Washtenaw County Road Commission

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2007

	Major Fund - Road	Adjustments (Note 2)	Statement of Activities
Revenue			
State aid - Michigan Transportation Fund	\$ 17,102,950	\$ -	\$ 17,102,950
State trunkline maintenance	2,717,984	-	2,717,984
Federal and state sources	12,379,564	-	12,379,564
Revenue from local governments	7,067,677	(32,708)	7,034,969
Contributions in-kind	8,410,930	-	8,410,930
Interest, fees, and other revenue	2,613,085	(199,978)	2,413,107
Total revenue	50,292,190	(233,280)	50,058,910
Expenditures/Expenses			
Administration	1,212,125	(63,525)	1,148,600
Operations	9,469,443	(3,391,051)	6,078,392
Engineering	3,450,309	(18,886)	3,431,423
Nondepartmental	5,165,194	-	5,165,194
Project expenditures - Road improvement program and construction	20,100,099	(20,100,099)	-
Road and other construction in-kind	8,410,930	(8,410,930)	-
Depreciation expense	-	11,290,567	11,290,567
Debt service:			
Principal retirement	775,000	(775,000)	-
Interest and other charges	176,153	(10,181)	165,972
Total expenditures/expenses	48,759,253	(21,479,105)	27,280,148
Excess of Revenue Over Expenditures/Expenses	1,532,937	21,245,825	22,778,762
Fund Balances/Net Assets - January 1, 2007	4,848,227	173,059,376	177,907,603
Fund Balances/Net Assets - December 31, 2007	<u>\$ 6,381,164</u>	<u>\$ 194,305,201</u>	<u>\$ 200,686,365</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies

The Washtenaw County Road Commission (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Washtenaw, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Washtenaw, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for the governmental fund, and have been separately stated in conjunction with the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use in finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only governmental fund (a major fund). The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

Advances - Governmental funds report advances in connection with resources that have been received but not yet earned. At the end of the current fiscal year, total advances were \$7,758,512.

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Other infrastructure	12 to 50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

New Accounting Standard - In the current year, the Road Commission implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new pronouncement causes the government-wide financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental fund because of the following:

Governmental fund fund balance	\$ 6,381,164
Capital assets used in governmental activities are not financial resources and are not reported in the funds	199,454,635
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,070,000)
Compensated absences are not reported in the funds	(870,331)
Net other postemployment obligations are not reported in the funds	(153,281)
Accrued interest payable is not reported in the funds	<u>(55,822)</u>
Government-wide net assets	<u>\$ 200,686,365</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Excess of revenue over expenditures/expenses of the governmental fund	\$ 1,532,937
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	20,842,227
In the statement of activities, only the gain (loss) on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the asset sold	(594)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	775,000
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	4,978
In the statement of activities, other postemployment benefits are reported when incurred, whereas in the governmental funds, benefits are reported when paid	(153,281)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	10,181
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>(232,686)</u>
Change in net assets of governmental activities	<u>\$ 22,778,762</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk as follows:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$10,437,423 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The book balance for these deposits has been reported on the governmental fund balance sheet/statement of net assets as cash and investments of \$9,866,773 and restricted assets of \$310,492.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2007 consist of cash and investments in the amount of \$310,492. These assets, representing unspent bond proceeds, are restricted for construction.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 18,413,306	\$ 4,691,653	\$ -	\$ 23,104,959
Capital assets being depreciated:				
Buildings and storage bins	13,014,843	35,835	-	13,050,678
Road equipment	12,586,770	444,996	829,358	12,202,408
Other equipment	1,936,846	18,236	-	1,955,082
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	244,529,291	26,942,074	-	271,471,365
Subtotal	272,204,136	27,441,141	829,358	298,815,919
Less accumulated depreciation for:				
Buildings and storage bins	(3,531,545)	(320,538)	-	(3,852,083)
Road equipment	(10,438,594)	(803,031)	(828,764)	(10,412,861)
Other equipment	(1,419,359)	(143,740)	-	(1,563,099)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	(96,478,556)	(10,023,258)	-	(106,501,814)
Subtotal	(112,004,440)	(11,290,567)	(828,764)	(122,466,243)
Net capital assets being depreciated	160,199,696	16,150,574	594	176,349,676
Net capital assets	\$ 178,613,002	\$ 20,842,227	\$ 594	\$ 199,454,635

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 6 - Risk Management and Other Long-term Liabilities (Continued)

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union employees earn sick and vacation time, while nonunion employees earn annual leave based on time of service with the Road Commission. The estimated compensated absence liability as of December 31, 2007 is \$870,331, a decrease of \$4,978 from December 31, 2006.

Postemployment Benefits Obligation

Other long-term liabilities include a postemployment benefits obligation of \$153,281 as discussed in Note 9.

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2007:

	Interest Rate	Maturing Through	Principal Outstanding
2000 Michigan Transportation Fund Notes, Series 2000	5.05%-5.2%	2009	\$ 190,000
2002 Michigan Transportation Fund Notes, Series 2002	4.125%-4.5%	2012	1,500,000
2004 Washtenaw County Refunding bonds	2.25%-3.5%	2013	<u>2,380,000</u>
Total bonded and other contractual indebtedness			<u>\$ 4,070,000</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

The 2000 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes was used to fund improvements on county highways in Scio Township.

The 2002 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes was used to fund improvements in subdivisions in Ypsilanti Township.

The Washtenaw County Building Authority Refunding debt represents bonds that were sold on behalf of the Road Commission for the construction of yard 2.

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2000 Michigan Transportation Fund Notes, Series 2000	\$ 285,000	\$ -	\$ 95,000	\$ 190,000	\$ 95,000
2002 Michigan Transportation Fund Notes, Series 2002	1,800,000	-	300,000	1,500,000	300,000
2004 Washtenaw County Refunding bonds	<u>2,760,000</u>	<u>-</u>	<u>380,000</u>	<u>2,380,000</u>	<u>375,000</u>
Total bonded and other contractual indebtedness	<u>\$ 4,845,000</u>	<u>\$ -</u>	<u>\$ 775,000</u>	<u>\$ 4,070,000</u>	<u>\$ 770,000</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2007, except liabilities for compensated absences and other post-employment benefit obligations, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2008	\$ 770,000	\$ 148,733	\$ 918,733
2009	780,000	121,715	901,715
2010	675,000	93,438	768,438
2011	695,000	69,288	764,288
2012	710,000	43,250	753,250
2013	440,000	15,400	455,400
Total	<u>\$ 4,070,000</u>	<u>\$ 491,824</u>	<u>\$ 4,561,824</u>

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2007 was approximately \$176,000.

Note 8 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982, as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the Special Revenue Funds. The Road Fund is a Special Revenue Fund.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 8 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on a departmental basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplemental information.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within a departmental category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Note 9 - Other Postemployment Benefits

Plan Description - The Road Commission provides healthcare benefits, dental benefits, and a death benefit to all full-time employees upon retirement, in accordance with labor contracts. This is an agent multiple-employer defined benefit plan administered by the Municipal Employees' Retirement System (MERS).

Funding Policy - The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of Commissioners through annual budget resolutions.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 9 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2007, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution/Annual OPEB cost	\$ 1,490,728
Amounts contributed:	
Payments of current premiums	(725,232)
Advance funding	<u>(612,215)</u>
Net OPEB obligation	153,281
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u><u>\$ 153,281</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2007 were as follows:

Annual OPEB costs	\$ 1,490,728
Percentage contributed	89.72%
Net OPEB obligation	\$ 153,281

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2006:

Actuarial value of assets	\$ 852,110
Actuarial accrued liability	21,116,123
Unfunded AAL (UAAL)	20,264,013
Funded ratio	4.04%
Annual covered payroll	7,725,580
Ratio of UAAL to covered payroll	262.30%

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 9 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual increase in salary between 4.8 percent and 12.9 percent. The assumptions also include expected increases in healthcare costs between 4.5 percent and 10.0 percent. All rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, was 30 years.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by resolution of the Road Commission Board.

Annual Pension Cost - For the year ended December 31, 2007, the Road Commission's annual pension cost of \$1,025,670 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2005	2006	2007
Annual pension cost (APC)	\$ 823,729	\$ 928,690	\$ 1,025,670
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 25,129,965	\$ 26,441,658	\$ 28,301,161
Actuarial accrued liability (AAL) (entry age)	\$ 33,025,576	\$ 36,027,271	\$ 37,585,945
Underfunded AAL (UAAL)	\$ 7,895,611	\$ 9,585,613	\$ 9,284,784
Funded ratio	76%	73%	75%
Covered payroll	\$ 6,911,250	\$ 7,568,848	\$ 7,725,580
UAAL as a percentage of covered payroll	114%	127%	120%

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2007

Note 11 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at December 31, 2007, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$213,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Required Supplemental Information

Washtenaw County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 17,095,000	\$ 17,000,000	\$ 17,102,950	\$ 102,950
State trunkline maintenance	2,298,000	2,548,000	2,717,984	169,984
Federal and state sources	17,756,000	13,729,000	12,379,564	(1,349,436)
Revenue from local governments	5,014,000	7,089,000	7,067,677	(21,323)
Contributions in-kind	-	8,822,000	8,410,930	(411,070)
Interest, fees, and other revenue	1,898,000	2,793,000	2,613,085	(179,915)
Total revenue	44,061,000	51,981,000	50,292,190	(1,688,810)
Expenditures				
Administration	1,059,000	1,238,000	1,212,125	25,875
Operations	9,653,000	9,460,000	9,469,443	(9,443)
Engineering	3,657,000	3,461,000	3,450,309	10,691
Nondepartmental	5,558,000	5,283,000	5,165,194	117,806
Project expenditures - Road improvement program and construction	23,875,000	22,106,000	20,100,099	2,005,901
Road and other construction in-kind	-	8,822,000	8,410,930	411,070
Debt service:				
Principal retirement	775,000	775,000	775,000	-
Interest and other charges	174,878	176,153	176,153	-
Total expenditures	44,751,878	51,321,153	48,759,253	2,561,900
Excess of Revenue Over (Under) Expenditures	(690,878)	659,847	1,532,937	873,090
Fund Balance - January 1, 2007	4,848,227	4,848,227	4,848,227	-
Fund Balance - December 31, 2007	<u>\$ 4,157,349</u>	<u>\$ 5,508,074</u>	<u>\$ 6,381,164</u>	<u>\$ 873,090</u>

Other Supplemental Information

Washtenaw County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2007

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Michigan Transportation Fund	\$ 12,793,986	\$ 4,308,964	\$ -	\$ 17,102,950
State trunkline maintenance	-	-	2,717,984	2,717,984
Federal and state sources	11,881,274	498,290	-	12,379,564
Revenue from local governments	5,107,590	1,960,087	-	7,067,677
Interest, fees, and other revenue	4,469,137	5,305,206	1,249,672	11,024,015
Total revenue	34,251,987	12,072,547	3,967,656	50,292,190
Expenditures				
Current:				
Primary construction/heavy maintenance	23,980,731	-	-	23,980,731
Local construction/heavy maintenance	-	7,582,137	-	7,582,137
Primary routine maintenance	5,637,811	-	-	5,637,811
Local routine maintenance	-	5,647,157	-	5,647,157
State maintenance	-	-	2,656,609	2,656,609
Equipment and capital outlay - Net of depreciation credits	(105,201)	(126,970)	(746,570)	(978,741)
Administrative	1,608,288	718,351	-	2,326,639
Other services	-	-	955,757	955,757
Debt service:				
Principal retirement	95,000	300,000	380,000	775,000
Interest and other charges	15,078	78,500	82,575	176,153
Total expenditures	31,231,707	14,199,175	3,328,371	48,759,253
Excess of Revenue Over (Under) Expenditures	3,020,280	(2,126,628)	639,285	1,532,937
Other Financing Sources (Uses) - Operating transfers in (out)	(2,126,628)	2,126,628	-	-
Excess of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses	893,652	-	639,285	1,532,937
Fund Balance - January 1, 2007	4,735,550	-	112,677	4,848,227
Fund Balance - December 31, 2007	<u>\$ 5,629,202</u>	<u>\$ -</u>	<u>\$ 751,962</u>	<u>\$ 6,381,164</u>

Washtenaw County Road Commission

**Report to the Board of County Road Commissioners
December 31, 2007**



Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

To the Board of County Road Commissioners
Washtenaw County Road Commission

We have recently completed our audit of the basic financial statements of the Washtenaw County Road Commission (the "Road Commission") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Road Commission:

	<u>Page</u>
Report on Internal Control (SAS 112)	1-3
Required Audit Communication of Significant Findings (SAS 114)	4-7
Summaries of Unrecorded Possible Adjustments	8-9

We are grateful for the opportunity to be of service to the Washtenaw County Road Commission. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

March 11, 2008

March 11, 2008

To the Board of County Road
Commissioners
Washtenaw County Road Commission
555 N. Zeeb Road
Ann Arbor, MI 48103

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Washtenaw County Road Commission's (the "Road Commission") financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Road Commission, as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies:

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

We consider the following control deficiencies to be significant deficiencies:

Accrued Payroll

During our review of accrued payroll, we noted that the Road Commission excluded biweekly salaries in the calculation of accrued payroll at year end. As a result, accrued payroll was understated by approximately \$164,000 at December 31, 2007.

Construction Revenue

During our testing of construction revenue, we discovered two projects (Wagner Road and Carpenter Road) in which the sharing percentages applied to report federal and state revenue did not agree to the sharing percentages stated in the contracts. As a result, revenue was understated and accounts payable to the Michigan Department of Transportation was overstated by approximately \$344,000 at December 31, 2007.

We noted the following control deficiencies that are not deemed to be significant:

Manual Journal Entries

During our review of internal controls, we noted opportunities for improvement in the manual journal entry process. Currently, there are no reviews of the finance director's manual journal entries. We recommend designating an individual to perform a periodic supervisory review of manual journal entries.

Information Technology

During our review of the information technology (IT) system, we noted that the termination checklist is limited in its facilitation of removal of user access. Additionally, the IT department does not appear to document the date access was disabled. We recommend that the termination checklist be enhanced to accommodate access removal and notate the date access was disabled.

To the Board of County Road
Commissioners
Washtenaw County Road Commission

March 17, 2008

This communication is intended solely for the information and use of management, the Board of County Road Commissioners, and others within the Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, appearing to read "Mary F. Schafer".

Mary Schafer

A handwritten signature in cursive script, appearing to read "Jenny L. Cederstrom".

Jenny L. Cederstrom

March 11, 2008

To the Board of County Road
Commissioners
Washtenaw County Road Commission

We have audited the financial statements of the Washtenaw County Road Commission (the "Road Commission") for the year ended December 31, 2007 and have issued our report thereon dated March 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 28, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal controls of the Washtenaw County Road Commission. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 4, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Washtenaw County Road Commission are described in Note 1 to the financial statements.

As described in Note 1, during the current year, the Road Commission implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new pronouncement causes the government-wide financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid.

The Road Commission did not enter into transactions during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, there were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated March 11, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Segregation of Duties Regarding Cash

During our review of internal controls, we noted opportunities for improvement in the wire transfer process. Currently, the finance director sends wire transfer requests to the County treasurer and receives the confirmation of the wire transfer back from the bank. We recommend that an individual other than the person sending the wire transfer request be designated to receive and review the confirmation sent back from the bank after the wire transfer was performed.

Technology Review

During our review of the information technology (IT) system, we noted that user access to financial applications is managed through the active directory. The network authentication controls are adequate overall but, due to the fact that no specific additional authentication is performed for the financial system, the importance of a strong network authentication environment is amplified. As such, we recommend that password complexity be enabled on the network.

Other Matters

Other accounting and procedural matters have been discussed with members of the Road Commission staff, including the following:

- **Held Checks** - The Road Commission occasionally holds checks related to large land purchases or vendor payments where the vendor prefers to pick up the check versus having it mailed to them. The Road Commission records the expenditures and relieves accounts payable at the time the check is written instead of when the check is picked up or mailed. We recommend that management implement a process for identifying held checks at year end to ensure that balance sheet accounts are properly stated throughout the year.

To the Board of County Road
Commissioners
Washtenaw County Road Commission

March 11, 2008

- **Access to Blank Check Stock** - Blank checks are currently stored in two locations in the finance department - a locked safe and a locked storage room. Currently, all employees in the finance department have access to the safe, where the key to the storage room is kept. To improve controls over the disbursement process, we recommend that access to the blank checks be limited to only those individuals who need access in conjunction with their job duties.

This information is intended solely for the use of the Board of County Road Commissioners and management of the Washtenaw County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, reading "Mary F. Schafer".

Mary Schafer

A handwritten signature in cursive script, reading "Jenny L. Cederstrom".

Jenny L. Cederstrom

Client: **Washtenaw County Road Commission**
 Opinion Unit **Governmental Activities**
 Y/E: **12/31/2007**

Increases (Decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
A1	Wagner Road project - To adjust federal/state revenue for correct participation percentages		\$ (103,221)		\$ 103,221	
A2	Carpenter Road project - To adjust federal/state revenue for correct participation		(240,924)		240,924	
A3	To reclassify Medicare Part D reimbursement to revenue in accordance with GASB TB 2006-I. Client recorded it as an offset to expense per the State Accounting Manual				84,596	\$ 84,596
Estimate Adjustments:						
B1	To adjust accrued payroll based on first pay register of 2008		164,315			164,315
B2						
Implied Adjustments:						
C1	None					
C2						
		\$ -	-	\$ -	-	-
	Combined effect	\$ -	\$ (179,830)	\$ -	\$ 428,741	\$ 248,911

Client: **Washtenaw County Road Commission**
 Opinion Unit **Road Fund**
 Y/E: **12/31/2007**

Increases (Decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Fund Balance	Revenue	Expenditures
Known Misstatements:						
A1	Wagner Road project - To adjust federal/state revenue for correct participation percentages		\$ (103,221)		\$ 103,221	
A2	Carpenter Road project - To adjust federal/state revenue for correct participation		(240,924)		240,924	
A3	To record deferred revenue for amounts not collected within 60 days of year end (estimated as of February 8, 2008)		79,030		(79,030)	
A4	To reclassify Medicare Part D reimbursement to revenue in accordance with GASB TB 2006-1. Client recorded it as an offset to expense per the State Accounting Manual				84,596	\$ 84,596
Estimate Adjustments:						
B1	To adjust accrued payroll based on first pay register of 2008		164,315			164,315
B2						
Implied Adjustments:						
C2	None					
C2						
		\$ -	-	\$ -	-	-
	Combined effect	\$ -	\$ (100,800)	\$ -	\$ 349,711	\$ 248,911